

ALTERNATIVE FORECASTS

Global Insight has assigned a 55% probability of occurrence to its April 2008 baseline forecast of the U.S. economy. The major features of this forecast include:

- Real GDP increases 1.2% in 2008, 1.7% in 2009, 3.0% in 2010, and 3.3% in 2011;
- U.S. nonfarm employment grows 0.2% in 2008, 0.4% in 2009, and 1.2% in 2010, and 1.6% in 2011;
- the annual U.S. civilian unemployment rate climbs to a peak of 5.8% next year then gradually declines to 5.2% in 2011;
- consumer inflation is 3.5% in 2008, 1.6% in 2009, 1.6% in 2010, and 1.7% in 2011;
- the current account deficit is \$666 billion in 2008, \$606 billion in 2009, \$652 billion in 2010, and \$671 billion in 2011;
- the federal unified budget deficit is \$413 billion in 2008, \$401 billion in 2009, \$377 billion in 2010, and \$312 billion in 2011.

OPTIMISTIC SCENARIO

Global Insight's *Optimistic Scenario* has been assigned a 15% probability of occurrence. Renewed strength in total factor productivity growth provides the key assumption distinguishing this scenario from the baseline. This stronger productivity growth, coupled with more optimism, facilitate enhanced business spending and a milder housing contraction. In addition, the fiscal-stimulus package adds fuel to the economy in the second half of this year. Foreign economic growth is also stronger, which boosts U.S. exports and strengthens domestic manufacturing despite the stronger dollar. Finally, energy prices are lower than in the baseline. Oil prices run about \$10.00-\$10.50 per barrel lower than in the *Baseline Scenario*. Faster supply growth also produces a loosening in other tight commodity markets.

Under these assumptions, the economic outlook is much brighter. After slowing to 0.4% in this year's first quarter, real GDP growth is 0.7% in the second quarter then accelerates to a 3.9% pace in the third quarter and 2.4% in the fourth quarter. On an annual basis, real GDP increases 1.9% in 2008, compared to a meager 1.2% in the baseline. Growth is also faster in 2009; it rises 3.0% compared to the baseline's 1.7%. Although economic growth and labor markets are stronger, inflation is actually lower in this scenario, thanks mainly to the rapid productivity gains. The core personal consumption expenditure inflation rate is 2.1% in 2008, which is slightly lower than the 2.2% baseline inflation rate. This inflation measure drops to 1.8% in 2009 and remains comfortably within the Federal Reserve's 1%-2% tolerance band throughout most of the forecast period. With the economy holding up better than in the baseline, the central bank does not cut interest rates aggressively. However, low inflation translates into lower interest rates than in the baseline in the long run.

Idaho's economic outlook also improves compared to the baseline. Idaho nonfarm employment growth is higher in each year of the forecast. The cumulative result of this stronger growth is that in 2011, total employment is 719,641 jobs, which are 11,219 more jobs than its baseline counterpart. As the accompanying table shows, the nongoods-producing sector makes up the lion's share of this difference. The outlook for nominal personal income also improves in the *Optimistic Scenario*. Specifically, it is \$58.5 billion in 2011 compared to \$57.8 billion in the *Baseline Scenario*. Inflation is lower in this scenario than in the baseline, so Idaho real personal income is higher than in the baseline.

IDAHO ECONOMIC FORECAST

BASELINE AND ALTERNATIVE FORECASTS

APRIL 2008

	BASELINE				OPTIMISTIC				PESSIMISTIC			
	2008	2009	2010	2011	2008	2009	2010	2011	2008	2009	2010	2011
U.S. GDP (BILLIONS)												
Current \$	14,282	14,822	15,556	16,394	14,383	15,089	15,875	16,730	14,149	14,492	15,256	16,240
% Ch	3.2%	3.8%	5.0%	5.4%	3.9%	4.9%	5.2%	5.4%	2.2%	2.4%	5.3%	6.5%
2000 Chain-Weighted	11,704	11,903	12,266	12,672	11,782	12,134	12,568	13,006	11,595	11,577	11,885	12,294
% Ch	1.2%	1.7%	3.0%	3.3%	1.9%	3.0%	3.6%	3.5%	0.2%	-0.2%	2.7%	3.4%
PERSONAL INCOME - CURR \$												
Idaho (Millions)	48,918	51,180	54,161	57,807	49,022	51,579	54,664	58,451	48,902	50,826	53,554	57,242
% Ch	4.6%	4.6%	5.8%	6.7%	4.8%	5.2%	6.0%	6.9%	4.5%	3.9%	5.4%	6.9%
U.S. (Billions)	12,147	12,589	13,214	13,971	12,204	12,789	13,460	14,226	12,114	12,462	13,076	13,965
% Ch	4.2%	3.6%	5.0%	5.7%	4.7%	4.8%	5.2%	5.7%	3.9%	2.9%	4.9%	6.8%
PERSONAL INCOME - 2000 \$												
Idaho (Millions)	40,393	41,507	43,195	45,315	40,564	42,131	44,036	46,365	40,220	40,721	41,854	43,582
% Ch	1.5%	2.8%	4.1%	4.9%	2.0%	3.9%	4.5%	5.3%	1.1%	1.2%	2.8%	4.1%
U.S. (Billions)	10,030	10,209	10,539	10,952	10,098	10,446	10,843	11,285	9,963	9,984	10,220	10,632
% Ch	1.2%	1.8%	3.2%	3.9%	1.9%	3.4%	3.8%	4.1%	0.5%	0.2%	2.4%	4.0%
TOTAL NONFARM EMPLOYMENT												
Idaho	660,616	670,364	686,199	708,422	661,528	675,307	694,947	719,641	658,655	659,939	667,941	684,484
% Ch	0.7%	1.5%	2.4%	3.2%	0.8%	2.1%	2.9%	3.6%	0.4%	0.2%	1.2%	2.5%
U.S. (Thousands)	137,856	138,376	140,050	142,353	138,480	140,638	142,933	145,132	137,174	136,318	137,523	140,285
% Ch	0.2%	0.4%	1.2%	1.6%	0.6%	1.6%	1.6%	1.5%	-0.3%	-0.6%	0.9%	2.0%
GOODS-PRODUCING SECTOR												
Idaho	117,705	114,272	114,819	118,323	117,863	115,008	115,967	118,880	116,570	109,599	109,486	113,431
% Ch	-4.9%	-2.9%	0.5%	3.1%	-4.8%	-2.4%	0.8%	2.5%	-5.9%	-6.0%	-0.1%	3.6%
U.S. (Thousands)	21,428	20,868	20,854	21,305	21,544	21,346	21,571	22,050	21,325	20,194	19,877	20,429
% Ch	-3.6%	-2.6%	-0.1%	2.2%	-3.0%	-0.9%	1.1%	2.2%	-4.0%	-5.3%	-1.6%	2.8%
NONGOODS-PRODUCING SECTOR												
Idaho	542,910	556,092	571,379	590,098	543,666	560,299	578,980	600,761	542,085	550,341	558,455	571,053
% Ch	2.0%	2.4%	2.7%	3.3%	2.1%	3.1%	3.3%	3.8%	1.8%	1.5%	1.5%	2.3%
U.S. (Thousands)	116,428	117,508	119,196	121,048	116,936	119,291	121,362	123,082	115,849	116,124	117,645	119,856
% Ch	0.9%	0.9%	1.4%	1.6%	1.3%	2.0%	1.7%	1.4%	0.4%	0.2%	1.3%	1.9%
SELECTED INTEREST RATES												
Federal Funds	2.0%	2.1%	4.1%	4.8%	2.3%	2.1%	3.6%	4.5%	1.8%	3.6%	5.5%	6.0%
Bank Prime	5.0%	5.1%	7.1%	7.8%	5.3%	5.1%	6.6%	7.5%	4.9%	6.6%	8.5%	9.0%
Existing Home Mortgage	5.6%	5.7%	6.9%	7.2%	5.7%	5.6%	6.5%	7.0%	6.2%	7.1%	7.9%	8.1%
INFLATION												
GDP Price Deflator	2.0%	2.0%	1.9%	2.0%	2.0%	1.9%	1.6%	1.8%	2.0%	2.6%	2.5%	2.9%
Personal Cons Deflator	3.0%	1.8%	1.7%	1.7%	2.8%	1.3%	1.4%	1.6%	3.4%	2.7%	2.5%	2.6%
Consumer Price Index	3.5%	1.6%	1.6%	1.7%	3.2%	1.0%	1.3%	1.5%	3.9%	2.4%	2.3%	2.6%

Forecast Begins the FIRST Quarter of 2008

PESSIMISTIC SCENARIO

The *Pessimistic Scenario* has been assigned a 30% probability of occurrence. This is the second recession scenario, the first being the baseline. In the *Pessimistic Scenario* the housing recession deepens even more than in the baseline and near-term oil prices spike above \$115 per barrel. This combination sends the economy into a double-dip recession. Real GDP drops during the first half of this year, then recovers slightly in the third quarter as the stimulus package and Federal Reserve interest rate cuts take effect. However, the respite is short lived. The impacts from the stimulus package and interest cuts wear off, and the economy slips back into reverse. Peak to trough, real output drops 1.4% over five quarters, making this recession deeper and longer lasting than the previous two recessions. Real GDP advances a meager 0.2% in 2008 and drops 0.2% in 2009.

The economy improves after next year, but fails to catch up with the baseline forecast. Real GDP turns in a sub-par performance mainly because productivity advances only 1.5% annually (on average) over the next decade. It averages 2.0% growth in the *Baseline Scenario*. Inflation is also higher despite the slower growth because of the lower productivity, the weaker dollar, and a revised, implicit monetary policy inflation target of 3%. The Federal Reserve raises the latter over fears that fighting inflation more aggressively could lead to yet another economic downturn.

A review of several measures shows the state is significantly worse off in the *Pessimistic Scenario*. Nonfarm employment growth is weaker in every year of the forecast, so by 2011 there are nearly 24,000 fewer jobs than in the *Baseline Scenario*. The nongoods-producing sector accounts for about 19,000 of this difference and the remaining 5,000-job loss is in the goods-producing sector. In 2011, Idaho nominal personal income is \$0.6 billion lower than in the baseline and real personal income is down \$1.7 billion.